

Consolidated Financial Results for the 2nd Quarter ended September 30, 2019
(Japanese Generally Accepted Accounting Principles)



November 12, 2019

Name of company Yakult Honsha Co., Ltd.
Stock exchange listing First section in Tokyo Stock Exchange
Code number 2267
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Scheduled date of filing Statutory quarterly financial report November 13, 2019
Scheduled date of payment of dividends December 2, 2019
Preparation of support documentation of results : Yes
Holding of briefing for analysts and institutional investors : Yes

(Figures less than 1 million yen have been rounded down)

1. Consolidated financial results for the 2nd quarter of FY2019, ended September 30, 2019 (April 1, 2019 - September 30, 2019)

(1) Consolidated Financial Results (Accumulated) (Percentage figures presents year-on-year changes)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
2Q FY2019	201,960	(0.8)	23,732	(0.3)	30,315	2.7	20,657	(3.1)
2Q FY2018	203,507	2.9	23,795	4.3	29,515	9.9	21,315	19.2

(Note) Comprehensive income for 2Q FY2019 9,107 million yen {(23.3)%} 2Q FY2018 11,867 million yen {(57.2)%}

	Basic earnings per Share		Diluted earnings per Share	
	yen		yen	
2Q FY2019	128.96		—	
2Q FY2018	132.85		—	

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity to Asset Ratio
	million yen	million yen	%
2Q FY2019	613,949	397,625	58.7
FY2018	618,532	392,279	57.8

(Ref.) Equity for 2Q FY2019 360,480 million yen FY2018 357,272 million yen

2. Dividends

(Base date)	Dividends per Share				
	1st Qtr.	2nd Qtr.	3rd Qtr.	Year End	Total
FY2018	—	20.00	—	24.00	44.00
FY2019	—	23.00	—	—	—
FY2019 (Forecast)	—	—	—	23.00	46.00

(Note) Revision of the latest dividend forecast : No

3. Forecast for consolidated financial results for FY2019 (April 1, 2019 - March 31, 2020)

(Percentage figures presents year-on-year changes)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent		Basic earnings per Share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Annual	409,000	0.5	46,000	0.3	58,000	1.5	39,000	11.6	243.46

(Note) Revision of the latest financial forecast : Yes

*Notes

(1) Changes in important subsidiaries during the period: No

(2) Special Accounting Treatment for Preparation of the Quarterly Consolidated Financial statements: Yes

Note: Details are stated on pg. 10 under “(3) Notes on Quarterly Consolidated Financial Statements”

(3) Change in accounting policies and estimates, correction of prior period errors

(a) Change in accounting policy with revision of accounting standard: Yes

(b) Change in accounting policy other than (a): No

(c) Change in accounting estimates: No

(d) Correction of prior period errors: No

(4) Shares issued (common stock)

(a) Number of shares issued

(including treasury stocks)

(b) Number of treasury stocks

(c) Weighted average of number of shares

(cumulative figure for quarter)

2Q FY2019	171,045,418	FY2018	171,045,418
2Q FY2019	10,855,047	FY2018	10,819,582
2Q FY2019	160,190,460	2Q FY2018	160,452,412

*This financial report is not included in quarterly reviews by our external auditors.

*Explanation for the appropriate use of the financial forecast and other comments

Note concerning statements about the future, etc.

The statements about the future, including earnings projections, contained in this report are based on information currently available as well as certain assumptions considered reasonable. Actual results may vary considerably from these projections owing to a range of factors.

Assumptions upon which the forecast is based and notes on the use of the forecast are stated on pg. 5 under “Disclaimer of Future Outlook Including Consolidated Financial Results Forecast.”

Procedure for obtaining supplementary information on financial results

We plan to hold a briefing for analysts and institutional investors on November 12, 2019. Materials used in the briefing will be posted on the company’s website.

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1. Qualitative Information Regarding Quarterly Consolidated Business Results

(1) Business Performance Overview

1 Performance Overview

During the second quarter of the fiscal year ending March 31, 2020, the Japanese economy maintained its gradual recovery amid continued improvements in the income environment, but the need to be mindful of the potential impact of volatility in the global economy and the financial and capital markets remains.

Against this background, the Yakult Group (the “Group”) worked to build awareness and understanding of the probiotics that constitute the bedrock of our operations, while striving to communicate the superiority of our products. The Group also sought to improve its performance by enhancing its sales organization, developing new products, upgrading its production facilities, and actively engaging in its international and pharmaceutical businesses.

Despite these efforts, consolidated net sales for the second quarter of this fiscal year declined 0.8% from the same period of the previous year to 201,960 million yen. Operating profit decreased 0.3% to 23,732 million yen, while ordinary profit increased 2.7% to 30,315 million yen. Profit attributable to owners of parent declined 3.1% to 20,657 million yen.

2 Overview by Segment

● Food and Beverages (Japan)

In dairy products for the Japanese market, Yakult focused on broadening recognition of the science behind its proprietary living *Lactobacillus casei* strain Shirota and *Bifidobacterium breve* strain Yakult, and continually conducted grassroots value dissemination initiatives utilizing scientific evidence.

Through our home delivery channel, we strived to create new customers for our mainstay fermented milk drinks *Yakult 400* and *Yakult 400LT* in particular, while also encouraging existing customers to continue drinking these products. In addition, we stepped up efforts to create a point of contact for new customers through Yakult Delivery Net, our online home-delivery ordering system. We also aimed to further enhance our home delivery organization by improving the working environment of Yakult Ladies, while continuing with hiring initiatives.

In the retail store channel, we conducted value dissemination activities with a focus on the fermented milk drinks *New Yakult* and *New Yakult Calorie Half*, through sampling and advertising lead by promotion staff. We also took steps to improve in-store visibility of the products, using displays to create sales spaces.

In product specific initiatives, we sought to invigorate the *Joie* drinkable yogurt brand with the July 2019 launch of *Nangoku Pineapple*, a limited time product. In addition, we positioned the fermented milk drink *Yakult 1000* as a next-generation product, launching initial sales in October for Tokyo and the six other prefectures of the Kanto region. *Yakult 1000* is our first product to be labelled as a Food with Function Claims. It can relieve stress in situations that cause temporary mental stress, and improve sleep quality.

In other beverages, we sought to boost revenue from *Tough-Man Refresh* by increasing the brand’s recognition. To that end, we ran a television commercial featuring Keyakizaka46, a pop idol group, as well as a customer campaign.

Despite these efforts to bolster sales, however, owing to unseasonal weather among other factors, both dairy products and other beverages recorded results below the previous year’s figures.

As a result, consolidated net sales for the food and beverages segment (Japan) declined 6.1% from the same period of the previous fiscal year, totaling 104,358 million yen.

- **Food and Beverages (Overseas)**

Yakult's operations outside Japan commenced in March 1964 with the establishment of Yakult Taiwan Co., Ltd., and now the manufacture and sale of *Yakult* outside of Japan spans 39 countries and regions centered around 29 companies and one research center, with average daily bottle sales of approximately 33.94 million bottles as of September 2019.

- i. The Americas**

Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Brazil, Mexico, and the United States.

In the US, we started sales on the East Coast and are expanding our sales area to cover the whole of the country.

As a result of the above, consolidated net sales in the food and beverages (The Americas) segment increased 0.7% from the same period of the previous year to 24,951 million yen.

- ii. Asia and Oceania**

Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Hong Kong, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, and China, among others, while also importing *Yakult* for sale in the United Arab Emirates (UAE) among other nations.

In China we are preparing to start the construction of a second Wuxi plant, planned for May 2020, to cater to future increases in demand resulting from the expansion of our sales area and deeper cultivation of the market.

In the UAE, September 2019 brought the launch of the fermented milk drink *Yakult Gold*, containing 30 billion *Lactobacillus casei* strain Shirota per bottle.

In Myanmar, we started manufacturing and selling *Yakult* in August 2019. This brought the number of countries and regions served by our overseas sales network to 39.

As a result of the above, consolidated net sales in the food and beverages (Asia and Oceania) segment rose 0.2% from the same period of the previous year to 58,543 million yen.

- iii. Europe**

In Europe, Yakult manufactures the fermented milk drink *Yakult* and other products in the Netherlands, and sells them in the Netherlands, Belgium, the United Kingdom, Germany, Austria, Italy, and other countries.

In the European market, where the promotion of probiotics faces strict regulation, we have engaged in a variety of initiatives in our efforts to receive approval for health claims related to our products. Under these difficult circumstances, Yakult companies in each country aimed for sustainable growth by engaging in sales activities tailored to their respective markets.

Despite these efforts, consolidated net sales in the food and beverages (Europe) segment declined 9.9% from the same period of the previous year to 4,092 million yen.

- **Pharmaceuticals**

During the period under review, we promoted the awareness and proper use of our products specializing in oncology and related fields.

Regarding our mainstay, the antineoplastic drug *Elplat*, we proactively conducted presentations for medical professionals in order to maintain our market share. Although medical institutions are increasingly switching to generic versions of *Elplat*, we boosted initiatives to encourage customers to continue choosing *Elplat* by leveraging our ability to provide relevant information about the drug, a

Company strength as the developer of the original drug, as well as the relationships of trust we have built with medical professionals. However, the steadily increasing replacement of *Elplat* with generic versions impacted our revenue.

In addition, we sought to expand sales channels for our core generic product, the antineoplastic metabolite *Gemcitabine [Yakult]* and other products. We also worked to swiftly build market awareness, and to increase revenue, for the antineoplastic drugs *Capecitabine Tablets [Yakult]* and *Gefitinib Tablets [Yakult]*, launched in June 2019.

Meanwhile, in R&D, we continued to progress with the clinical development of items in our pipeline, including the PI3K inhibitor *duvelisib [YHI1702]*, for which we concluded an exclusive licensing agreement for development and commercialization in Japan with Verastem Oncology (U.S.), and the HDAC inhibitor *resminostat [YHI-1001]*, licensed from 4SC AG (Germany). Through these efforts, we aim to further strengthen our position in oncology and related fields.

Despite the above efforts, however, consolidated net sales in the Pharmaceuticals segment declined 6.3% to 10,404 million yen.

● Others

This segment encompasses Yakult's cosmetics manufacturing and sales as well as its professional baseball team operations.

In our cosmetics operations, we worked to help customers realize their inner and outer beauty, and to increase the number of regular users of our cosmetics by focusing on initiatives to disseminate the value of our proprietary moisturizing agent *S.E. (Shirota Essence)*, which is the result of our extensive research on lactic acid bacteria since the Company's foundation.

In July 2019, we released a revamped version of our *Lactdew* series of highly moisturizing basic skin care products containing *S.E. (Shirota Essence)*. We used this as an opportunity to increase revenue, adding the new *Lactdew S.E. Milk*, which many customers had requested, and ran a television commercial to boost brand recognition for products in the series.

In our professional baseball operations, we are working to boost attendance at Tokyo's Jingu Stadium and expand sales through proactive fan engagement including diverse events and promotions at the stadium, as well as active information dissemination.

As a result, consolidated net sales in the Others segment rose 9.0% to 11,802 million yen.

Note: Consolidated sales for each segment include inter-segment sales.

Sales figures for each segment do not include consumption tax, etc.

(2) Financial Position

Total assets at the fiscal quarter-end amounted to 613,949 million yen, a decrease of 4,583 million yen, compared to the previous fiscal year end, six months prior.

Net assets increased 5,346 million yen from the previous fiscal year end to 397,625 million yen. This was primarily due to an increase in retained earnings from profit attributable to owners of parent, which offset a decrease in foreign currency translation adjustments caused by the yen's appreciation and a decrease in valuation difference on available-for-sale securities resulting from declining share prices.

The equity to asset ratio was 58.7%, a 0.9 percentage point increase from the previous fiscal year end.

(3) Disclaimer of Future Outlook Including Consolidated Financial Results Forecast

With regard to the above earnings forecasts, we revised the full-year consolidated earnings forecasts announced on May 14, 2019, based on several factors including business performance during the second quarter and the recent business environment.

The above forecast is based on the information available to management at the time of announcement. Actual operating results may differ from these projections due to various factors in the future.

2. Quarterly Consolidated Financial Statements and Notes
 (1) Quarterly Consolidated Balance Sheet

	(Millions of yen)	
	Fiscal year 2018 As of March 31, 2019	Current period As of September 30, 2019
Assets		
Current Assets		
Cash and Deposits	156,484	157,181
Notes and Accounts receivable-trade	52,880	57,062
Merchandises and Finished goods	9,404	11,166
Work in process	2,143	2,329
Raw materials and supplies	17,565	17,235
Others	9,421	10,850
Allowance for doubtful accounts	(262)	(275)
Total current assets	247,637	255,550
Non-Current Assets		
Property, plant and equipment		
Buildings and structures, net	82,753	85,517
Others, net	117,318	114,497
Total Property, plant and equipment	200,071	200,014
Intangible assets		
Software	2,463	2,055
Others	2,318	2,310
Total Intangible assets	4,782	4,366
Investments and other assets		
Investment securities	155,306	143,503
Others	10,849	10,626
Allowance for doubtful accounts	(114)	(111)
Total investments and other assets	166,040	154,018
Total non-current assets	370,895	358,398
Total assets	618,532	613,949

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(Millions of yen)

	Fiscal year 2018 As of March 31, 2019	Current period As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable-trade	27,983	25,345
Short-term loans payable	34,598	33,516
Current portion of long-term loans payable	5,542	5,540
Income taxes payable	3,984	4,552
Provision for bonuses	6,023	6,799
Others	37,322	32,850
Total current liabilities	115,455	108,605
Non-current liabilities		
Long-term loans payable	76,344	73,563
Provision for directors' retirement benefits	392	339
Net defined benefit liability	5,463	4,775
Asset retirement obligations	981	995
Others	27,616	28,042
Total non-current liabilities	110,798	107,717
Total liabilities	226,253	216,323
Net assets		
Shareholders' equity		
Capital stock	31,117	31,117
Capital surplus	41,742	41,750
Retained earnings	347,740	364,554
Treasury shares	(54,833)	(55,105)
Total shareholders' equity	365,767	382,316
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	30,465	23,697
Foreign currency translation adjustment	(36,304)	(43,098)
Remeasurements of defined benefit plans	(2,655)	(2,435)
Total accumulated other comprehensive income	(8,495)	(21,836)
Non-controlling interests	35,007	37,145
Total net assets	392,279	397,625
Total liabilities and net assets	618,532	613,949

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(Millions of yen)

	Previous period From April 1, 2018 to September 30, 2018	Current period From April 1, 2019 to September 30, 2019
Net Sales	203,507	201,960
Cost of sales	85,448	84,507
Gross profit	118,058	117,453
Selling, general and administrative expenses	94,262	93,720
Operating profit	23,795	23,732
Non-operating income		
Interest income	2,091	2,617
Dividend income	1,118	1,153
Share of profit of entities accounted for using equity method	2,151	2,715
Others	1,262	1,148
Total non-operating income	6,623	7,633
Non-operating expenses		
Interest expenses	364	436
Commission fee	329	62
Foreign exchange losses	-	354
Others	210	196
Total non-operating expenses	904	1,050
Ordinary profit	29,515	30,315
Extraordinary income		
Gain on sales of non-current assets	46	47
Gain on sales of investment securities	1,632	1,858
Others	543	32
Total extraordinary income	2,223	1,938
Extraordinary losses		
Loss on sales of non-current assets	24	12
Loss on retirement of non-current assets	90	366
Loss on valuation of investment securities	-	804
Others	9	274
Total extraordinary losses	124	1,457
Profit before income taxes	31,613	30,797
Income taxes	7,738	7,657
Profit	23,875	23,140
Profit attributable to non-controlling interests	2,559	2,482
Profit attributable to owners of parent	21,315	20,657

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Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

	Previous period From April 1, 2018 to September 30, 2018	Current period From April 1, 2019 to September 30, 2019
Profit	23,875	23,140
Other comprehensive income		
Valuation difference on available-for-sale securities	2,322	(6,780)
Foreign currency translation adjustment	(14,446)	(7,922)
Remeasurements of defined benefit plans, net of tax	217	220
Share of other comprehensive income of entities accounted for using equity method	(101)	449
Total other comprehensive income	<u>(12,007)</u>	<u>(14,033)</u>
Comprehensive income	<u>11,867</u>	<u>9,107</u>
Comprehensive income attributable to:		
Owners of parent	11,538	7,316
Non-controlling interests	329	1,790

(3) Notes on Quarterly Consolidated Financial Statements

(Notes Related to Going Concern Assumption)

None.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

None.

(Special Accounting Treatment for Preparation of the Quarterly Consolidated Financial Statements)

Calculation of Tax Expenses

Tax expenses for the Company and its consolidated subsidiaries in Japan are calculated by multiplying income before income taxes for the second quarter under review by the reasonably estimated effective tax rate after applying tax effect accounting to the income before income taxes for the current consolidated fiscal year, including the second quarter under review.

In addition, income taxes—deferred are included in income taxes.

(Change in Accounting Policies)

The Company's consolidated subsidiaries outside Japan began preparing their financial statements based on IFRS 16 (Leases) from the first quarter of the current fiscal year, and in principle recognize all leases as assets and liabilities on their balance sheets.

As a result, at fiscal quarter-end "Property, plant and equipment" increased by 5,053 million yen, "Others" recorded under current liabilities rose by 1,447 million yen, and "Others" recorded under non-current liabilities increased by 3,290 million yen.

This change had minimal effect on the Company's profit/loss for the second quarter and had no impact on the balance of retained earnings at the beginning of the quarter under review.

(Segment Information)

I Net sales and profit (loss) in each reportable segment during the first six months of fiscal 2018 (April 1 to September 30, 2018)

(Millions of yen)

	Food and Beverages			
	Japan	The Americas	Asia and Oceania	Europe
Net sales				
Net sales to external customers	95,110	24,777	58,417	4,541
Intersegment net sales or transfers	15,968	—	—	—
Total	111,078	24,777	58,417	4,541
Segment profit (loss)	9,348	6,552	17,347	515

	Pharmaceuticals	Others	Adjustments	Consolidated results
Net sales				
Net sales to external customers	11,100	9,560	—	203,507
Intersegment net sales or transfers	—	1,269	(17,237)	—
Total	11,100	10,829	(17,237)	203,507
Segment profit (loss)	(1,456)	651	(9,163)	23,795

Notes: Adjustments are as follows:

1. The (9,163) million yen adjustment in segment profit (loss) includes (6,632) million yen of corporate expenses not allocated to specific segments. Corporate expenses include those of administrative divisions of the Company, such as the general affairs department, that cannot be attributed to any specific reportable segments.
2. Segment profits are adjusted with operating profit under the quarterly consolidated statements of income.
3. Countries / regions in each geographic segment outside Japan.

- | | |
|----------------------|----------------------------------------------------------------------------------------------------------------|
| (1) The Americas | Mexico, Brazil, The United States of America |
| (2) Asia and Oceania | Hong Kong, China, Indonesia, Singapore, Malaysia, Australia, India, Vietnam, The United Arab Emirates, Myanmar |
| (3) Europe | The Netherlands, The United Kingdom, Germany, Belgium, Austria, Italy |

II Net sales and profit (loss) in each reportable segment during the first six months of fiscal 2019 (April 1 to September 30, 2019)

(Millions of yen)

	Food and Beverages			
	Japan	The Americas	Asia and Oceania	Europe
Net sales				
Net sales to external customers	93,359	24,951	58,543	4,092
Intersegment net sales or transfers	10,999	—	—	—
Total	104,358	24,951	58,543	4,092
Segment profit (loss)	9,244	6,775	15,349	351

	Pharmaceuticals	Others	Adjustments	Consolidated results
Net sales				
Net sales to external customers	10,404	10,609	—	201,960
Intersegment net sales or transfers	—	1,193	(12,192)	—
Total	10,404	11,802	(12,192)	201,960
Segment profit (loss)	93	1,130	(9,212)	23,732

Notes: Adjustments are as follows:

1. The (9,212) million yen adjustment in segment profit (loss) includes (6,724) million yen of corporate expenses not allocated to specific segments. Corporate expenses include those of administrative divisions of the Company, such as the general affairs department, that cannot be attributed to any specific reportable segments.
2. Segment profits are adjusted with operating profit under the quarterly consolidated statements of income.
3. Countries / regions in each geographic segment outside Japan.
 - (1) The Americas Mexico, Brazil, The United States of America
 - (2) Asia and Oceania Hong Kong, China, Indonesia, Singapore, Malaysia, Australia, India, Vietnam, The United Arab Emirates, Myanmar
 - (3) Europe The Netherlands, The United Kingdom, Germany, Belgium, Austria, Italy